Huali 華力

Huali Holdings (Group) Limited

華力控股(集團)有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3366)

Interim Report 2007

CONTENTS

CORPORATE INFORMATION

Registered Office

Clifton House, 75 Fort Street
PO Box 1350 GT, George Town
Grand Cayman, Cayman Islands

Head Office and Principal Place of Business

Suite 3203 – 3204, Tower 6
The Gateway, Harbour City
Canton Road, Tsim Sha Tsui
Kowloon, Hong Kong

Board of Directors

Executive Directors

Mr. Zheng Fan
(the Chairman of the Company)
Mr. Ni Zheng
(the Chief Executive Officer of the Company)
Ms. Xie Mei
Mr. Zhou Guangneng

Independent Non-executive Directors

Ms. Wong Wai Ling
Mr. Chen Xiangdong
Mr. Xiao Yongping

Qualified Accountant and Company Secretary

Mr. Fong Fuk Wai *(FCPA, FCCA)*

Auditors

KPMG
Certified Public Accountants
8/F Prince's Building
10 Chater Road
Central, Hong Kong

Hong Kong Legal Adviser

Loong & Yeung
Suites 2911-12, 29/F
Two International Finance Centre
No.8 Finance Street, Central
Hong Kong

Principal Share Registrar and Transfer Office

Appleby Corporate Services (Cayman) Limited
Clifton House, 75 Fort Street
PO Box 1350 GT, George Town
Grand Cayman, Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17/F, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

China Merchants Bank Hong Kong Branch
Standard Chartered Bank (HK) Ltd.

Stock Information

Listing Date: 2 November 2005
Stock Code: 3366
Stock Short Name: Huali Holdings
Company Website: www.hualiholdings.com

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS AND BUSINESS REVIEW

Pearl River Delta and Yangtze River Delta, where the operating subsidiaries of Huali Holdings (Group) Limited (the "Company", together with its subsidiaries, collectively the "Group") locate, have emerged as the important packaging industrial zones in China. There is a large number of paper packaging companies in the regions with increasing competition across the industry. During the first half year of 2007, the price of raw material and energy, labour costs and interest rates have been rising continuously on different extents. With higher costs, intense price competition and lower profit margin in the industry, the Group still managed to achieve a steady growth through enhancing internal management.

For the six months ended 30 June 2007, the Group recorded a turnover of approximately RMB344 million, representing an increase of approximately 8.9% over the same period of last year; the gross profit margin was approximately 12.9%, representing a decrease of 0.6% over the same period of 2006, which was mainly attributable to higher cost of sales due to increase in raw material prices; profits attributable to shareholders were approximately RMB21.76 million, representing an increase of approximately 35.7% over the same period of last year. Excluding the factor that the fair value of the share options of RMB4.56 million granted to employees was recognized as an expense in the first half year of 2006, profits attributable to shareholders for the six months ended 30 June 2007 increased by approximately 5.6% over the same period of last year.

On 19 March 2007, Huizhou Huali Packaging Company Limited (惠州華力包裝有限公司) ("Huizhou Huali"), an indirect wholly-owned subsidiary of the Company, entered into a transfer agreement to acquire the land use rights of a piece of land (the "Land") in Huizhou, Guangdong, at an adjusted consideration of approximately RMB62,313,000 (equivalent to approximately HK$62,835,000), and the relevant state owned land use rights certificates of the Land were issued in the name of Huizhou Huali in April this year. A new production facility will be built on the Land and the production capacity of the Group is expected to be enhanced accordingly. The Group plans to gradually relocate the Group's operation in Shenzhen to the new production base.

In May 2007, the Group changed its strategic plan by disposing its 100% equity interest in Mission Holdings Services Limited (its only asset was holding directly 85% equity interest in Mundanjiang Huali Packaging Company Limited (牡丹江華力包裝有限公司) ("Mudanjiang Huali"). The consideration of the disposal of the equity interest in Mission Holdings Services Limited was HK$9,920,000 (equivalent to approximately RMB9,780,000). Given Mudanjiang Huali's remote location and the difficulty in expanding its production scale, the directors of the Company ("Directors") consider that the transaction was in the Group's long term interest.

In April 2007, the paperboard production line of Anhui Huali Packaging Company Limited (安徽華力包裝有限公司) ("Anhui Huali") came into service and became the Group's new profit engine.

During the period under review, by centralizing its procurement function, the Group successfully mitigated the adverse impact of the increase in paper price. In addition, all production bases of the Group have implemented an ERP system, which helps optimizing the allocation of internal resources and maximizing efficiency.

Outlook

The Group encountered difficulties and challenges due to arising adverse factors such as lower profit margin for the whole industry as a result of intense price competition, the indirect impact as a result of adjustments on the national export tax refund rate and the possible increase in paper price for the second half of the year. Nevertheless, driven by the steady growth of China's economy, the corrugated paper packaging industry continues to maintain good development trends and bright outlook. The Group remains optimistic towards its future development.

For the second half of 2007, the Group will continue to take measures in improving the quality management and supply chain management etc. so as to provide its customers with improved services. As Anhui Huali strengthens its market expansion, it is anticipated that its sales will be gradually increased. For the second half of the year, the application of the German colour printing equipment newly acquired by Shanghai Huali Packaging Co., Ltd.(上海華勵包裝有限公司)will facilitate the Group's expansion of colour printing business in Eastern China. Huizhou Huali is in its preparation stage of planning with a smooth progress, and is scheduled to commence production by the end of next year.

In order to enhance its competitive edges and increase its profitability, the management of the Group intends to seek for new development opportunities in Pearl River Delta, Yangtze River Delta, Huanbohai Area and other economically developed areas, including participation in other industries with good prospect. The Group may finance such investments by way of issue of securities, bank financing or internal resources of the Group.

APPOINTMENT OF INDEPENDENT DIRECTOR

At the 2006 Annual General Meeting of the Company (the "AGM") held on 26 April 2007, a resolution was passed in respect of the appointment of Ms. Wong Wai Ling as an independent non-executive Director for a term commencing on the date of the AGM which approved her appointment and ending at the conclusion of the 2007 annual general meeting of the Company to be held in 2008. The board of Directors (the "Board") also appointed Ms. Wong as the chairman of the Audit Committee and Remuneration Committee of the Company.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2007, the Group employed approximately 1,700 full-time staff members. The basic remunerations of the employees are mainly determined with reference to the industrial remuneration benchmark, the employees' experience and their performance. Salaries of employees are maintained at a competitive level and are reviewed annually. Apart from the basic remunerations and statutory benefits required by laws, the Group also provides discretionary bonuses based upon the Group's results and the individual staff's performance. The Group has adopted a share option scheme with a view to attracting and retaining high calibre personnel.

FINANCIAL REVIEW

As at 30 June 2007, the Group's total assets were approximately RMB624 million. Total equity amounted to approximately RMB345 million. The Group's turnover was approximately RMB344 million for the six months ended 30 June 2007, representing an increase of approximately 8.9% over the same period of 2006; gross profit margin was approximately 12.9% (same period in 2006: 13.5%), mainly attributable to higher cost of sales due to increases in raw material prices; profits attributable to shareholders were approximately RMB21.76 million, representing an increase of approximately 35.7% over the same period of 2006. Excluding the factor that the fair value of the share options of RMB4.56 million granted to employees was recognized as an expense in the first half year of 2006, profits attributable to shareholders for the six months ended 30 June 2007 increased approximately 5.6% over the same period of last year.

Distribution Costs and Administrative Expenses

Distribution costs for the six months ended 30 June 2007 were approximately RMB14.73 million (same period in 2006: approximately RMB15.07 million), representing a decrease of approximately 2.3% over the corresponding period in 2006. This was mainly attributable to reduction in transportation costs after Anhui Huali, a subsidiary of the Group, commenced production, which helped shorten the distance between the Group's facility and its customers.

The Group's administrative expenses for the six months ended 30 June 2007 were approximately RMB12.57 million (same period in 2006: approximately RMB14.82 million), representing a decrease of approximately 15.2% over the corresponding period in 2006. Excluding the factor that the fair value of the share options of RMB4.56 million granted to employees was recognized as an expense in the first half year of

2006, administrative expenses were increased by approximately RMB2.31 million over the corresponding period in 2006, which was mainly due to more operation activities and the increase in lease and salary payment during the period.

Interest Expenses

The interest expenses of the Group were approximately RMB2.22 million for the six months ended 30 June 2007, as compared to RMB1.25 million for the same period ended 30 June 2006; the increase of which was mainly attributable to more borrowings due to increase in capital expenditure.

Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007.

Inventories, Debtors' and Creditors' Turnover

The inventory turnover of the Group was 51 days for the six months ended 30 June 2007 as compared to 38 days for the year ended 31 December 2006. The increase in inventory turnover day over 2006 was mainly attributable to higher inventory level after Anhui Huali, a subsidiary of the Group, commenced production. The Group's debtors' turnover days were 72 days for the six months ended 30 June 2007 as compared to 69 days for the year ended 31 December 2006. The above debtors' turnover days are substantially the same as that normally granted by the Group to its customers. The Group's creditors' turnover days were 95 days for the six months ended 30 June 2007 as compared to 102 days for the year ended 31 December 2006.

Liquidity, Financial Resources and Capital Structure

The total equity of the Group as at 30 June 2007 was approximately RMB345 million (31 December 2006: approximately RMB338 million). As at 30 June 2007, the Group had current assets of approximately RMB306 million (31 December 2006: approximately RMB372 million) and current liabilities of approximately RMB261 million (31 December 2006: approximately RMB256 million). The liquidity ratio was 1.18 as at 30 June 2007 as compared to 1.45 as at 31 December 2006. Decrease of liquidity ratio was mainly due to withdrawal of bank deposits of approximately RMB89.15 million, of which approximately RMB87.06 million were used for capital expenditure. The Group generally finances its operations with internally generated cash flow and credit facilities provided by banks. As at 30 June 2007, the Group had outstanding bank loans of approximately

RMB86.35 million, of which approximately RMB44 million were fixed rate loans (as at 31 December 2006: outstanding bank loans of approximately RMB70.19 million, of which approximately RMB15 million were fixed rate loans). The interest rates of bank loans of the Group was 5.10% to 6.39% per annum for the six months ended 30 June 2007 (from 4.96% to 7.07% per annum for the year ended 31 December 2006). Part of these bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. The Group's gearing ratio (being the total borrowings including bills payable and bank loans divided by total assets) decreased from approximately 27% as at 31 December 2006 to approximately 26% as at 30 June 2007.

As at 30 June 2007, approximately 63% of the total amount of outstanding bank loans of the Group was in Renminbi (31 December 2006: 43%), approximately 37% of its bank loans was in Hong Kong Dollars (31 December 2006: 57%). As at 30 June 2007, approximately 60% of the total amount of cash and cash equivalents of the Group was in Renminbi (31 December 2006: 39%), approximately 37% of its cash and cash equivalents was in Hong Kong Dollars (31 December 2006: 55%) and approximately 3% of its cash and cash equivalents was in US Dollars (31 December 2006: 6%).

The Group's liquidity position remains stable and the Group possesses sufficient cash and available banking facilities to meet its commitments, working capital requirements and future investments for expansion. The Group's transactions and monetary assets are principally denominated in Renminbi, Hong Kong dollars or United States dollars. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates for the period up to 30 June 2007. As at 30 June 2007, the Group did not employ any financial instrument for hedging purposes.

Use of Proceeds from the Initial Public Offering ("IPO")

As stated in the Company's prospectus dated 24 October 2005, approximately HK$45 million of the net proceeds raised from the Group's IPO would be used for acquiring a piece of land in Shenzhen for building a new factory. Taking into account the high cost of lands in Shenzhen and its surrounding counties/districts, the Group acquired the land use rights for a piece of land in Huizhou, Guangdong. The consideration for the acquisition was funded by the net proceeds raised from the public offer and placing of shares at the IPO and internal resources of the Group.

Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2007.

DIRECTORS' INTERESTS

As at 30 June 2007, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") are as follows:

Long Positions in Ordinary Shares of the Company

Name of Directors	Capacity/Nature	No. of shares involved	Approximate shareholding percentage
Ni Zheng *(Note 1)*	Beneficial owner	2,000,000	1.00%
Liu Danlin *(Note 2)*	Beneficial owner	1,700,000	0.85%
Zhou Guangneng *(Note 3)*	Beneficial owner	1,700,000	0.85%

Notes:

1. Ni Zheng is interested as a grantee of options to subscribe for 2,000,000 shares under the Share Option Scheme of the Company.

2. Liu Danlin is interested as a grantee of options to subscribe for 1,700,000 shares under the Share Option Scheme of the Company. Mr. Liu Danlin ceased to be a Director from 20 August 2007.

3. Zhou Guangneng is interested as a grantee of options to subscribe for 1,700,000 shares under the Share Option Scheme of the Company.

Save as disclosed above, as at 30 June 2007, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 30 June 2007, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long Position in the Ordinary Shares of the Company

Name	Capacity/Nature	No. of Shares of interest	Approximate shareholding percentage
Substantial Shareholders			
Pacific Climax Limited *(Note 1)*	Beneficial owner	134,370,000	67.185%
Overseas Chinese Town (HK) Company Limited ("OCT (HK)") *(Note 2)*	Interest of a controlled corporation *(Note 3)*	134,370,000	67.185%
Overseas Chinese Town Enterprises Co. ("OCT Group") *(Note 4)*	Interest of a controlled corporation *(Note 5)*	134,370,000	67.185%
Others			
Polyfairz Group Limited (formerly known as Polyfair Limited)	Beneficial owner	15,630,000	7.815%
Zhang Zhilin	Interest of a controlled corporation *(Note 6)*	15,630,000	7.815%
Tang Qinmei	Interest of spouse *(Note 7)*	15,630,000	7.815%

Notes:

(1) Mr. Ni Zheng, Mr. Zhou Guangneng and Ms. Xie Mei, Directors, are also directors of Pacific Climax Limited.

(2) Mr. Zheng Fan, a Director, is the chairman of the board of directors of OCT (HK). Mr. Ni Zheng, a Director, is also a director of OCT (HK). Ms. Xie Mei and Mr. Zhou Guangneng, Directors, are the deputy general managers of OCT (HK).

(3) OCT (HK) is the beneficial owner of all the issued share capital in Pacific Climax Limited. Therefore OCT (HK) is deemed, or taken to be interested in these shares which are beneficially owned by Pacific Climax Limited for the purpose of the SFO.

(4) Mr. Zheng Fan, a Director, is the Chief Cultural Officer of OCT Group.

(5) OCT Group is the beneficial owner of all the issued shares in OCT (HK) (OCT Group holds 454,999,998 shares in OCT (HK) in its own name. Mr. Zheng Fan, an executive Director, and Mr. Guo Yubin hold one share each in OCT (HK) on trust for OCT Group) and which is in turn the beneficial owner of all the issued share capital in Pacific Climax Limited and therefore OCT Group is deemed, or taken to be, interested in the 134,370,000 shares which are beneficially owned by Pacific Climax Limited for the purposes of the SFO.

(6) Polyfairz Group Limited (formerly known as Polyfair Limited) is beneficially owned as to 90% by Mr. Zhang Zhilin and thus a controlled corporation of Mr. Zhang Zhilin, and Mr. Zhang Zhilin is deemed, or taken to be, interested in the 15,630,000 shares which are beneficially owned by Polyfairz Group Limited for the purpose of the SFO.

(7) Ms. Tang Qinmei is the spouse of Mr. Zhang Zhilin. Therefore, Ms. Tang Qinmei is deemed, or taken to be, interested in all the shares in which Mr. Zhang Zhilin is interested for the purpose of the SFO.

Save as disclosed above, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 12 October 2005 whereby the Directors are authorised, at their absolute discretion and on such terms as they may think fit, grant an employee (full-time or part-time), a director, consultant and adviser of the Group, or any substantial shareholder of the Group, options to subscribe for shares of the Company. The purpose of the share option scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants and advisers of the Group and to promote the success of the Group. The share option scheme shall be valid and effective for a period of ten years ending on 11 October 2015, unless terminated earlier by shareholders of the Company in general meetings.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.00.

The subscription price of a share in respect of any particular option granted under the share option scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the options; and (iii) the nominal value of the shares on the date of grant of the options.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under the share option scheme does not exceed 10% of the shares in issue at the date of approval of the share option scheme. The Company may at any time refresh such limit, subject to the shareholders' approval and the issuance of a circular in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

The total number of securities available for issue under the share option scheme as at the date of this report was 19,300,000 shares which represented 9.65% of the issued share capital of the Company as at the date of this report. The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the share option scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Company's shares in issue.

An option may be exercised in accordance with the terms of the share option scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The status of the share options granted up to 30 June 2007 are as follows:

Number of unlisted share options (physically settled equity derivatives)

Name and category of participants	As at 1 January 2007	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	As at 30 June 2007	Date of grant of share options*	Exercise period of share options	Exercise price of share options** *HK$*	Share price of the Company as at the date of grant of share options*** *HK$*
Directors									
Ni Zheng	2,000,000	–	–	–	2,000,000	7 February 2006	7 February 2006 to 6 February 2016	1.41	1.41
Liu Danlin	1,700,000	–	–	–	1,700,000	7 February 2006	7 February 2006 to 6 February 2016	1.41	1.41
Zhou Guangneng	1,700,000	–	–	–	1,700,000	7 February 2006	7 February 2006 to 6 February 2016	1.41	1.41
	5,400,000	–	–	–	5,400,000				
Other Employees	13,900,000	–	–	–	13,900,000				
Total	19,300,000	–	–	–	19,300,000				

* Under the Company's share option scheme, there is no vesting period of the share options.

** The exercise price of the share options was subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The share price of the Company disclosed as at the date of the grant of the share options was the closing price as quoted on the Stock Exchange of the trading day immediately prior to the date of the grant of the share options.

The details of the model and significant assumptions used to estimate the fair value of the share options granted by the Company to the eligible participants during the period are set out under Note 14 on the interim financial report.

Apart from the foregoing, at no time during the period prior to the date of this interim report was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

CORPORATE GOVERNANCE

For the six months ended 30 June 2007, the Company complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Securities Trading by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules ("Model Code"). The Board confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standards set out in the Model Code regarding the Directors' securities transactions.

Audit Committee

The Audit Committee of the Company and the management have reviewed this report including the unaudited interim financial report of the Group for the six months ended 30 June 2007 and have discussed the internal control, accounting principles and practices adopted by the Group.

Purchase, Sale or Redemption of Shares

The Company or any of its subsidiaries has not redeemed any of its shares during the six months ended 30 June 2007. During the same period, neither the Company nor any of its subsidiaries has purchased or sold any of the shares of the Company.

SUBSEQUENT EVENTS

On 11 July 2007, Shenzhen Huali Packing & Trading Co., Ltd. (深圳華力包裝貿易有限公司) (the "Vendor"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Overseas Chinese Town Real Estate Company Limited (深圳華僑城房地產有限公司) (the "Purchaser"), pursuant to which the Vendor conditionally agreed to sell the two factory buildings with an aggregate gross floor area of 21,985.37 sq.m. erected on a piece of land located at Huaqiaocheng, Nanshan District, Shenzhen, the PRC with a total site area of 12,404.82 sq.m. together with the land use rights of such land (the "Properties") to the Purchaser at an aggregate consideration of RMB50,600,000 (equivalent to approximately HK$51,929,000). The Vendor and the Purchaser also entered into the tenancy agreement, pursuant to which the Purchaser (as landlord) and the Vendor (as tenant) agreed that the Properties will be leased back to the Vendor at a monthly rental of approximately RMB263,824 (equivalent to approximately HK$270,755) for a fixed term up to 31 December 2009.

After the disposal, the Company plans to relocate its production base to the parcel of land at Hangcheng Industrial Park, Xinqiao Village, Danshui Town, Huiyang District, Guangdong Province, the PRC with a total area of approximately 213,000 sq.m. The parcel of land was acquired by the Group on 19 March 2007. The site where the land is situated has a well developed transport and road network which represents a significant advantage to the Group. The aforesaid disposal of the Properties and the tenancy agreement were approved by the independent shareholders at an extraordinary general meeting held on 14 August 2007 pursuant to the Listing Rules.

On 20 August 2007, Mr. Liu Danlin resigned as an executive Director. The Board approved the redesignation of Ms. Xie Mei from a non-executive Director to an executive Director, and Ms. Xie Mei ceased to be a member of the Remuneration Committee and the Audit Committee of the Company. Meanwhile, the Board approved Mr. Chen Xiangdong, an independent non-executive Director, to be a member of the Remuneration Committee and the Audit Committee. For details, please refer to the Company's announcement dated 20 August 2007.

By order of the Board
Zheng Fan
Chairman

Hong Kong, 20 August 2007

INTERIM FINANCIAL REPORT

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007 (unaudited)
(Expressed in Renminbi)

		Six months ended 30 June	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Turnover	*4*	**343,702**	316,254
Cost of sales		**(299,397)**	(273,661)
Gross profit		**44,305**	42,593
Other revenue		**11,251**	9,493
Other net loss		**(659)**	(774)
Distribution costs		**(14,725)**	(15,065)
Administrative expenses		**(12,571)**	(14,822)
Other operating expenses		**(284)**	(561)
Profit from operations		**27,317**	20,864
Finance costs	*5*	**(2,223)**	(1,250)
Profit before taxation	*5*	**25,094**	19,614
Income tax	*6*	**(3,279)**	(3,547)
Profit for the period		**21,815**	16,067
Attributable to:			
Equity shareholders of the Company		**21,757**	16,044
Minority interests		**58**	23
Profit for the period		**21,815**	16,067
Earnings per share (RMB)	*8*		
Basic		**0.109**	0.080
Diluted		**0.103**	0.077

The notes on pages 21 to 36 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 June 2007 (unaudited)
(Expressed in Renminbi)

	Note	**At 30 June 2007** *RMB'000*	At 31 December 2006 *RMB'000*
Non-current assets			
Property, plant and equipment		**185,628**	179,884
Construction in progress		**22,993**	20,438
Goodwill		**24,937**	24,937
Lease prepayments	*9*	**81,701**	20,010
Deferred tax assets		**2,757**	2,878
		318,016	248,147
Current assets			
Inventories		**83,735**	63,775
Trade and other receivables	*10*	**139,658**	135,858
Cash and cash equivalents	*11*	**83,015**	172,160
		306,408	371,793
Current liabilities			
Trade and other payables	*12*	**191,119**	207,009
Bank loans		**67,252**	43,664
Current taxation		**2,192**	4,882
		260,563	255,555
Net current assets		**45,845**	116,238
Total assets less current liabilities		**363,861**	364,385

The notes on pages 21 to 36 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET *(continued)*

At 30 June 2007 (unaudited)
(Expressed in Renminbi)

	Note	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Non-current liabilities			
Bank loans		**19,098**	26,524
NET ASSETS		**344,763**	337,861
CAPITAL AND RESERVES			
Share capital		**20,800**	20,800
Reserves		**323,963**	315,362
Total equity attributable to equity shareholders of the Company		**344,763**	336,162
Minority interests		**–**	1,699
TOTAL EQUITY		**344,763**	337,861

Approved and authorised for issue by the Board on 20 August 2007.

Zheng Fan)
) *Directors*
Ni Zheng)

The notes on pages 21 to 36 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007 (unaudited)
(Expressed in Renminbi)

	Attributable to equity				
	Registered/ issued capital *RMB'000*	Share premium *RMB'000*	Contributed surplus *RMB'000*	Merger reserve *RMB'000*	Capital reserve *RMB'000*
At 1 January 2006	20,800	29,964	156,507	24,757	20,828
Profit for the period	–	–	–	–	–
Equity settled share-based transaction *(Note 14)*	–	–	–	–	4,558
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–
Dividend approved in respect of previous year *(Note 7)*	–	–	–	–	–
Acquisition of minority interest of a subsidiary *(Note 13(b))*	–	–	–	–	–
Consideration of the Acquisition *(Note 1)*	–	–	(8,796)	–	–
At 30 June 2006	20,800	29,964	147,711	24,757	25,386
At 1 January 2007	20,800	29,964	147,711	24,757	25,386
Profit for the period	–	–	–	–	–
Disposal of a subsidiary *(Note 13(c))*	–	–	–	–	–
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–
Dividend approved in respect of previous year *(Note 7)*	–	–	–	–	–
At 30 June 2007	20,800	29,964	147,711	24,757	25,386

The notes on pages 21 to 36 form part of this interim financial report.

shareholders of the Company

Exchange reserve RMB'000	General reserve fund RMB'000	Enterprise expansion fund RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
(958)	28,701	5,366	37,992	323,957	1,691	325,648
–	–	–	16,044	16,044	23	16,067
–	–	–	–	4,558	–	4,558
(164)	–	–	–	(164)	–	(164)
–	–	–	(16,224)	(16,224)	–	(16,224)
–	–	–	–	–	(300)	(300)
–	–	–	–	(8,796)	–	(8,796)
(1,122)	28,701	5,366	37,812	319,375	1,414	320,789
(1,290)	31,131	5,366	52,337	336,162	1,699	337,861
–	–	–	21,757	21,757	58	21,815
(454)	–	–	–	(454)	(1,757)	(2,211)
(27)	–	–	–	(27)	–	(27)
–	–	–	(12,675)	(12,675)	–	(12,675)
(1,771)	31,131	5,366	61,419	344,763	–	344,763

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007 (unaudited)
(Expressed in Renminbi)

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Cash (used in)/generated from operations	**(8,455)**	36,576
Tax paid	**(5,969)**	(5,823)
Net cash (outflows)/inflows from operating activities	**(14,424)**	30,753
Net cash used in investing activities	**(78,208)**	(2,946)
Net cash generated from financing activities	**3,487**	20,134
Net (decrease)/increase in cash and cash equivalents	**(89,145)**	47,941
Cash and cash equivalents at 1 January	**172,160**	97,951
Cash and cash equivalents at 30 June	**83,015**	145,892

The notes on pages 21 to 36 form part of this interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT (UNAUDITED)

(Expressed in Renminbi)

1. BASIS OF PRESENTATION

Acquisition of Grand Signal Limited

On 20 January 2006, the Group acquired 100% interest in Grand Signal Limited ("Grand Signal") from its intermediate holding company, Overseas Chinese Town (HK) Company Limited ("OCT(HK)"), for a cash consideration of approximately HK$8,457,000 (approximately RMB8,796,000 equivalent) (hereinafter referred to as the "Acquisition"). Grand Signal is an investment holding company and its sole subsidiary, Anhui Huali Packaging Company Limited ("Anhui Huali") (formerly known as Anhui Huali Industrial Products Manufacturing Company Limited), engages in the manufacture and sale of paper boxes and products in the People's Republic of China (the "PRC").

As the Group, Grand Signal and Anhui Huali (the "Acquired Group") have been under the common control of OCT(HK), the Acquisition is reflected in the condensed consolidated interim financial report using the principles of merger accounting under Accounting Guideline 5 ("AG 5"). Accordingly, the assets and liabilities of the Acquired Group have been accounted for at historical amounts and the condensed consolidated interim financial report of the Company prior to the Acquisition have been restated to include the result of operations and assets and liabilities of the Acquired Group on a combined basis. The consideration paid by the Group for the Acquisition has been accounted for as an equity transaction in the consolidated statement of changes in equity for the six months ended 30 June 2006.

2. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements. Please refer to note 3 for the discussion of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") adopted by the Group in 2007.

2. BASIS OF PREPARATION *(continued)*

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2006.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2006. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs which collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations.

The interim financial report is unaudited and not reviewed by the auditors, but has been reviewed by the Audit Committee of the Company. It was approved and authorised for issue by the Board on 20 August 2007.

The financial information relating to the financial year ended 31 December 2006 that is included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 March 2007.

3. NEW AND REVISED HKFRSs

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies applied in these financial statements for the periods presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. TURNOVER

The principal activity of the Group is the manufacture and sale of paper boxes and products. Turnover represents the sales value of goods supplied to customers, net of value-added tax.

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
(a) Finance costs:		
Interest on bank loans	**2,223**	1,250
(b) Staff costs:		
Salaries, wages and other benefits	**25,866**	22,009
Contributions to defined contribution retirement schemes	**1,541**	1,682
Equity-settled share-based payment expenses (Note 14)	**–**	4,558
	27,407	28,249
(c) Other items:		
Amortisation of lease prepayments	**621**	219
Depreciation of property, plant and equipment	**14,160**	13,093
Impairment losses (written back)/made on trade and other receivables	**(2)**	507
Inventory write-down and losses	**258**	–
Net gain on disposal of a subsidiary (Note 13(c))	**(696)**	–

6. INCOME TAX

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Current tax – Provision for PRC income tax		
Provision for the year	**3,279**	3,547

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2007 (2006: Nil).

Pursuant to the income tax rules and regulations of the PRC, taxation for PRC subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant cities in the PRC, which range between 15% to 33% (2006: 15% to 33%). Certain subsidiaries are entitled to a tax concession period in which it is fully exempted from PRC income tax for 2 years starting from its first profit-making year, followed by a 50% reduction in the PRC income tax for the next 3 years.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands during the period (2006: Nil).

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate currently adopted by the Group will change from 33% to 25% with effect from 1 January 2008 over a five-year transitional period. The existing preferential tax rates currently enjoyed by certain subsidiaries will be gradually transited to the standard rate of 25% over a five-year transitional period. As the detailed instruction for the transition to the new tax rate is yet to be issued, the Group estimated that the applicable income tax rates under the preferential tax policy will be expired at the shorter of existing preferential tax periods and five-year transitional period. The change in the carrying amount of deferred tax assets and liabilities, as a result of change in tax rate, is considered in the financial statements of the Group in 2007.

7. DIVIDENDS

Dividends attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Final dividend in respect of the financial year ended 31 December 2006, approved and paid during the following interim period, of HK$6.40 cents per share (equivalent RMB6.337 cents per share) (year ended 31 December 2005: HK$7.80 cents per share) (equivalent RMB8.112 cents per share)	**12,675**	16,224

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the profit attributable to equity shareholders of the Company of RMB21,757,000 (2006: RMB16,044,000) and the weighted average of 200,000,000 (2006: 200,000,000) ordinary shares in issue during the six months ended 30 June 2007.

8. EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2007 is based on the profit attributable to equity shareholders of the Company of RMB21,757,000 (2006: RMB16,044,000) and the weighted average of 210,377,705 (2006: 207,481,925) ordinary shares (diluted) during the six months ended 30 June 2007, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2007	2006
Weighted average number of ordinary shares at 30 June	**200,000,000**	200,000,000
Effect of deemed issue of shares under the Company's share option scheme (Note 14)	**10,377,705**	7,481,925
Weighted average number of ordinary shares (diluted) at 30 June	**210,377,705**	207,481,925

9. LEASE PREPAYMENTS

During the period, the Group established a wholly owned subsidiary, Huizhou Huali Packing Co., Ltd. ("Huizhou Huali"). Huizhou Huali entered into a transfer agreement with an independent third party to acquire the land use right of a piece of land in Huiyang for the Group's production expansion at a cash consideration of RMB62,313,000.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2007 ***RMB'000***	At 31 December 2006 *RMB'000*
Trade receivables	**113,101**	105,467
Bills receivable	**22,677**	26,513
Prepayment, deposits and other receivables	**3,880**	3,878
	139,658	135,858

10. TRADE AND OTHER RECEIVABLES *(continued)*

Included in trade and other receivables are trade and bills receivables (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 30 June 2007 *RMB'000*	At 31 December 2006 *RMB'000*
Within 3 months	**129,134**	127,807
Within 6 months but more than 3 months	**6,644**	4,115
Within 12 months but more than 6 months	**–**	58
	135,778	131,980

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. Subject to negotiation, extended credit terms are available for certain customers with established trading records.

11. CASH AND CASH EQUIVALENTS

	At 30 June 2007 *RMB'000*	At 31 December 2006 *RMB'000*
Cash at bank and in hand	**83,015**	172,160

12. TRADE AND OTHER PAYABLES

	At 30 June 2007 *RMB'000*	At 31 December 2006 *RMB'000*
Trade payables	**81,679**	71,244
Bills payable	**74,530**	99,258
Other payables	**34,910**	36,507
	191,119	207,009

12. TRADE AND OTHER PAYABLES *(continued)*

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	At 30 June 2007 *RMB'000*	At 31 December 2006 *RMB'000*
Within 3 months or on demand	**149,780**	124,374
Over 3 months but less than 1 year	**6,263**	45,934
Over 1 year	**166**	194
	156,209	170,502

13 RESERVES

(a) Transfer to reserve

Transfers from retained profits to general reserve fund were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

The subsidiaries in the PRC are required to transfer 10% of their net profits, as determined in accordance with the PRC accounting rules and regulations, to general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this fund must be made before distribution of dividends to the equity holders.

General reserve fund can be used to make good previous years' losses, if any, and may be converted into paid up capital provided that the balance of the general reserve fund after such conversion is not less than 25% of the registered capital.

(b) Acquisition of Shenzhen Huayou Packaging Co., Ltd.

On 20 January 2006, the Group acquired 10% interest in Shenzhen Huayou Packaging Co., Ltd. ("Shenzhen Huayou") for a cash consideration of RMB300,000 from the minority shareholder. After the acquisition, Shenzhen Huayou has become a wholly-owned subsidiary of the Group.

13 RESERVES *(continued)*

(c) Disposal of a subsidiary

On 20 May 2007, the Group disposed of 100% equity interest in its subsidiary, Mission Holdings Services Limited ("Mission Holdings") to an independent third party. Mission Holdings is an investment holding company which holds 85% interest in its sole subsidiary, Mudanjiang Huali Packaging Co., Ltd. ("Mudanjiang Huali"). The cash consideration received in respect of the disposal amounted to HK$9,920,000 (RMB9,780,000 equivalent). The consolidated net assets of Mission Holdings held by the Group at the date of disposal amounted to RMB9,036,000, and net gain on the disposal, after relevant expenses, of RMB696,000 was recognised.

14 EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 7 February 2006, 19,300,000 share options were granted to directors and employees of the Company under the Company's share option scheme. Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company which will be settled by physical delivery of shares. These share options vested immediately from the date of grant, and then be exercisable within a period of ten years. The exercise price is HK$1.41, as specified in the rules governing the share option scheme, being the higher of (i) the closing price of the shares of the Company on the Stock Exchange on the date of the grant of the options, (ii) the average closing price of the shares on the Stock Exchange for the five preceding business days immediately before the date of the grant of the options and (iii) the nominal value of the Company's share of the date of grant of the option. No option was exercised, forfeited or expired during the period. All options granted above were outstanding and exercisable at 30 June 2007 with a remaining contractual life of 8 years and 8 months.

During the year ended 31 December 2006, the Company recognised RMB4,558,000 in respect of the grant of share options in expenses and equity.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the service received is measured based on Black-Scholes option pricing model.

14 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

Fair value of share options and assumptions

Fair value at measurement date (date of grant)	HK$0.2271
Share price (date of grant)	HK$1.41
Exercise price	HK$1.41
Expected volatility	28.30%
Time to maturity	10 years
Expected exercise period by the option holders	2 years
Expected dividends	2.60%
Risk-free interest rate (based on Exchange Fund Notes)	3.89%

The expected volatility was estimated by the annualised standard deviations of the continuously compounded rates of return on return on the comparable listed paper-based packaging companies in Hong Kong. Expected dividends were estimated by the management. There were no market conditions associated with the share option grants. Changes in the subjective input assumptions could materially affect the fair value estimate.

15 CAPITAL COMMITMENTS

Capital commitments, outstanding at 30 June 2007 not provided for in the financial statements were as follows:

	At 30 June 2007	At 31 December 2006
	RMB'000	*RMB'000*
Contracted for	**150**	21,318
Authorised but not contracted for	**4,961**	3,158
	5,111	24,476

16 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with other state-controlled entities:

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Other than those disclosed in note 16(b), transactions with other state-controlled entities include but are not limited to the following:

– Utility supplies; and

– Financial services arrangement.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions with other state-controlled entities require disclosure:

(i) Transactions with other state-controlled entities in the PRC:

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Interest income	**1,045**	793
Interest expenses	**2,223**	1,250

16 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with other state-controlled entities: *(continued)*

(ii) Balances with other state-controlled entities in the PRC:

	At 30 June 2007 **RMB'000**	At 31 December 2006 *RMB'000*
Cash at bank	**81,617**	152,402
Bank loans – current	**64,252**	43,664
Bank loans – non-current	**19,098**	26,524

(b) The Group has a related party relationship with the following parties:

Name of party	**Relationship with the Group**
Overseas Chinese Town Enterprises Corporation ("OCT Group")	Ultimate holding company
OCT (HK)	Intermediate holding company
Shanghai Huiyang Industry Co., Ltd. ("Shanghai Huiyang")	79% owned by a director of a subsidiary of the Group
Shanghai Meiling Central Air Conditioner Company Limited ("Meiling Air-Conditioner")	Subsidiary of Shanghai Huiyang
Shanghai Pudong Xiamei Plastics Co., Ltd. ("Shanghai Xiamei")	Subsidiary of Shanghai Huiyang
Mudanjiang Nanhua Hesheng Paper Company Limited ("Mudanjiang Nanhua") *(Note)* (Formerly known as Mudanjiang Nanhua Industrial Company Limited)	Minority equity holder of a subsidiary

Note: Mudanjiang Nanhua ceased to be a related party of the Group upon the disposal of Mudanjiang Huali on 20 May 2007.

16 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) The Group has a related party relationship with the following parties: *(continued)*

Recurring transactions

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Sales of goods to:		
OCT Group, its subsidiaries and associate	**327**	387
Meiling Air-Conditioner	**4,701**	4,540
Mudanjiang Nanhua	**–**	3
	5,028	4,930
Purchase of goods from:		
OCT Group, its subsidiaries and associate	**577**	468
Mudanjiang Nanhua *(Note)*	**547**	931
	1,124	1,399
Rental paid to:		
OCT Group, its subsidiaries and associate	**850**	858
Shanghai Xiamei	**90**	90
	940	948
Utility expenses paid to:		
OCT Group, its subsidiaries and associates	**1,623**	2,005

Note: The amount for the period ended 30 June 2007 represents transactions occurred before 20 May 2007 when Mudanjiang Nanhua was still regarded as a related party of the Group.

16 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) The Group has a related party relationship with the following parties: *(continued)*

Non recurring transactions

	Six months ended 30 June 2007 RMB'000	Six months ended 30 June 2006 RMB'000
Acquisition of Grand Signal:		
OCT(HK) (Note 1)	–	8,796

Balances with related parties

Amounts due from/(to) related parties are as follows:

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Trade receivable	**3,724**	660
Trade payable	**(77)**	(304)
Other receivables	**293**	293
Other payables	**–**	(92)

(c) Key management personnel compensations

Key management personnel receive compensations in the form of fees, salaries, housing and other allowances, benefits in kind, discretionary bonuses, share options and retirement scheme contribution.

Key management personnel received total compensation of the Group, including amounts paid to the Company's directors and certain of the highest paid employee, is summarised as follows:

	Six months ended 30 June 2007 RMB'000	Six months ended 30 June 2006 RMB'000
Short-term employee benefits	**1,634**	1,447
Post employment benefits	**37**	61
Equity compensation benefits	**–**	2,787
	1,671	4,295

16 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(d) Contributions to post-employment benefit plans

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Shenzhen, Zhongshan, Shanghai, Anhui and Mudanjiang whereby the Group is required to make contributions to the Schemes at a rate ranging from 8% to 25% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

17 POST BALANCE SHEET EVENTS

On 11 July 2007, a subsidiary of the Group, Shenzhen Huali Packing and Trading Co., Ltd. ("Shenzhen Huali") entered into an agreement with a related party, OCT Real Estate Co., Ltd. ("OCT Properties"), to sell the land use right of a piece of land located in Shenzhen and two factory buildings erected on the Land (the "property") at a cash consideration of RMB50,600,000. On the same day, Shenzhen Huali entered into a tenancy agreement with OCT Properties to lease back the property upon the completion of transfer of the land use right certificate. The aforesaid disposal of the Properties and tenancy agreement was approved by the independent shareholders at an extraordinary general meeting held on 14 August 2007 pursuant to the Listing Rule.